



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	04/07/03	Bill No:	AB 322
Tax:	Property	Author:	Parra
Board Position:		Related Bills:	SB 764 (Morrow)

BILL SUMMARY

This bill would provide that a disabled veteran receiving the disabled veterans' property tax exemption on their home would continue to receive the exemption after the veteran no longer resides in the home because he or she has been confined to a care facility or hospital.

Summary of Amendments

The amendments to this bill since the previous analysis specify that these provisions will not apply if the home is rented or leased to a third party while the disabled veteran is in a care facility or hospital. The amendments also make several nonsubstantive technical corrections.

ANALYSIS

Current Law

Article XIII, Section 4 of the California Constitution provides that the Legislature may exempt from property tax, in whole or in part, the home of a person or a person's spouse, including an unmarried surviving spouse, if the person, because of injury incurred in military service, is totally disabled. This exemption is commonly referred to as the "disabled veterans' exemption." The disabled veterans' exemption is also available to the surviving spouse of a person who has died as a result of a service connected injury or death while on active duty in military service.

Revenue and Taxation Code Section 205.5 provides that the disabled veterans' exemption is available to property that constitutes the **principal place of residence** of a veteran who has a disability rating at 100% or has a disability compensation rating at 100% because he or she is unable to secure or follow a substantially gainful occupation. The exemption is available in two amounts:

- \$100,000 for qualified persons, hereafter referred to as the "basic exemption" which is provided on a one time filing basis, and
- \$150,000 for qualified persons with low incomes, as specified, hereafter referred to as the "low income exemption" which requires a first time filing and subsequent annual filings to reaffirm income eligibility. For the 2003 assessment year, the household income limit is \$42,814.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Existing law provides that a property is not eligible for the disabled veterans' property tax exemption if the owner does not occupy the property as his or her principal place of residence on the lien date. Revenue and Taxation Code Section 279 provides that a claim for the disabled veterans' property tax exemption, once granted, shall remain in effect until:

- title to the property changes,
- the owner does not occupy the home as his or her principal place of residence on the lien date,
- the veteran is no longer disabled as defined in Section 205.5, or
- the property is altered so that it is no longer a residence.

With respect to this bill, existing law provides that a property is ineligible for the exemption if a disabled veteran or the surviving spouse of a disabled veteran does not occupy the property as his or her principal place of residence on the lien date. Existing law is silent as to the specific issue when the reason for not residing in the property is confinement to a hospital or other care facility.

Proposed Law

This measure would amend Section 205.5 of the Revenue and Taxation Code to provide that property is deemed to be the principal place of residence of a disabled veteran who is confined to a hospital or other care facility, if that property would be that veteran's principal place of residence were it not for his or her confinement to a hospital or other care facility, provided that the residence is not rented or leased to a third party. A family member that resides at the residence is not considered to be a third party.

In addition, this measure would make corresponding amendments to Section 279 which provides that the disabled veterans' exemption, once granted, will remain in continuous effect.

Background

The following table lists the number of disabled veterans' exemptions claimed in each of the 58 counties.

San Diego	3349	Shasta	455
Los Angeles	1386	Ventura	435
Sacramento	1317	Fresno	428
Riverside	1192	Sonoma	354
Solano	1000	San Joaquin	329
San Bernardino	975	Stanislaus	300
Orange	967	Kern	287
Monterey	766	Butte	281
Contra Costa	590	Santa Barbara	267
Santa Clara	493	Merced	242
Alameda	471	Placer	231

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San Mateo	204	Yolo	58
Tulare	200	Del Norte	55
San Luis Obispo	178	Siskiyou	48
El Dorado	176	Mariposa	45
Marin	174	Imperial	41
Humboldt	153	Amador	38
Nevada	141	Plumas	33
Lake	138	Lassen	25
San Francisco	132	Trinity	22
Sutter	126	San Benito	20
Mendocino	126	Glenn	16
Santa Cruz	118	Modoc	12
Yuba	112	Colusa	11
Tehama	100	Inyo	8
Napa	99	Sierra	5
Kings	95	Mono	2
Madera	85	Alpine	1
Tuolumne	70		
Calaveras	59		

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Association of County Veteran's Services Officers. Its intent is to ensure that a disabled veteran who enters a rest home will continue to receive the exemption on his or her home. The practice of some counties is to disqualify the property from receiving the exemption in this situation.
2. **Statement of Legislative Intent.** The statement of intent provides that the Legislature finds and declares the following:
 - There are many disabled veterans who own property that qualifies for the disabled veterans' property tax exemption, but due to the fact that these disabled veterans are confined to hospitals or other medical institutions they are unable to occupy that property as their principal places of residence. In many cases the spouses of these disabled veterans continue to occupy the property as their principal places of residence.
 - It is the intent of the Legislature in enacting this act to amend the Revenue and Taxation Code to conform with the California Constitution to further extend the disabled veterans' property tax exemption to property owned by the spouse of a living disabled veteran while that disabled veteran is confined to a hospital or other care facility and to extend the disabled veterans' property tax exemption to an otherwise qualifying veteran who is unable to occupy that property as his or her principal place of residence because he or she is confined to a hospital or other care facility, provided that the property is not rented or leased to a third party.

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3. **Key Amendments.** The April 7 amendments specify that if the home is rented or leased to a third party while the disabled veteran is in a care facility or hospital then the exemption would not apply. Additionally, the amendments modified Section 279 to change cross references to definitions in other sections of code that did not exist and to delete references to regulations related to the disabled veterans exemption that do not exist.
4. **Spouse Residing in the Home.** This bill codifies the existing practices of many, but not all, counties in the situation where a disabled veteran enters a rest home and a spouse continues to reside in the home. Many counties allow the exemption to remain on the property under the rationale that the absence from the home is temporary. However, a few counties consider the home to be ineligible for the exemption due to the technicality that it is no longer "the principal place of residence" of the veteran even when a spouse is residing in the home. In these counties, if the veteran were to subsequently die, the home would requalify for the exemption since unmarried surviving spouses are eligible for the disabled veterans' exemption.
5. **Vacant Home.** This bill would codify the existing practices of some, but not all, counties in the situation where a disabled veteran enters a care facility and the home is left vacant.
6. **Rented Home.** If the home is rented or leased, the assessment practice of most counties is to disqualify the home from receiving the exemption. This bill would codify the existing practice of most counties.
7. **Existing law and regulations are silent on this issue.** However, there is BOE guidance on this subject as it relates to the homeowners' exemption. Letter to Assessors 82/50 advises that a homeowner's "temporary absence" from a home would not disqualify the home from the homeowners' exemption provided the home is not rented or leased to others on the lien date. With respect to the situation where a parent is confined to a rest home and an adult child resides in the home, BOE has advised that if the parent is expected to return and rent is not charged, the homeowners' exemption may continue. However, an absence of more than one year might raise questions as to whether the home is still the parent's principal residence. Some counties have extended this written advice to the disabled veterans' exemption.
8. **Related Bill.** SB 764 (Morrow) would increase the disabled veterans' exemption to \$200,000 for the basic exemption and \$250,000 for the low-income exemption.

COST ESTIMATE

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the law changes.

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REVENUE ESTIMATE

Existing law provides that the disabled veterans' property tax exemption may be revoked if the owner does not occupy the property as his or her principal place of residence on the property tax lien date. In some counties this includes instances when the disabled veteran is confined to a hospital or other care facility for an extended period of time. Staff estimates that fewer than 20 disabled veteran's property tax exemptions were revoked as a result of the veterans' confinement to a hospital or other care facility during 2001-02.

In the case of a disabled veteran having his or her exemption revoked, the veteran and/or the veteran's spouse could then claim the standard homeowners' exemption in the amount of \$7,000. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2001-02 totaled \$405,460,000 on 5.3 million claims.

The total exempt value on these properties was \$37,115,077,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is:

$$\$405,460,000 / \$37,115,077,000, \text{ or } 1.092\%$$

Therefore, the state cost of each homeowners' exemption reimbursement is as follows:

$$\$7,000 \times 1.092\% = \$76.44$$

Under this bill, those disabled veterans claiming the standard homeowners' exemption would now be eligible to claim the disabled veterans' property tax exemption, the maximum amount being \$150,000. The result is an estimated savings for the state as follows:

$$\$76.44 \times 20 \text{ revoked exemptions} = \$1,529$$

Unlike the standard homeowners' exemption, the disabled veteran property tax exemption is not reimbursed by the state to the counties. Since the maximum disabled veteran exemption is \$150,000, the maximum loss per claim can be computed:

$$\$150,000 \times 1\%(\text{basic tax rate}) = \$1,500$$

Revenue Summary

This bill would result in net savings for the state of approximately \$1,529 annually in homeowners' reimbursements. The revenue loss to local government at the basic 1% property tax rate would be less than \$1,500 x 20, or \$30,000 annually.

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